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UNCLAS SECTION 01 OF 02 TEGUCIGALPA 003151

SIPDIS

SENSITIVE

STATE FOR EB/CIP, EB/CBA
GUATEMALA FOR COMMATT:DTOMPSON

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SUBJECT: CELLULAR PROVIDERS PRE-QUALIFIED

REF: a) TEGUCIGALPA 02043 b) TEGUCIGALPA 02563

1. (SBU) Summary. Bellsouth was one of three firms found to prequalify to participate in the upcoming 25-year wireless telephone service concession on November 7, along with the Chilean company ENTEL and a Swiss-Honduran consortium. Digicel Honduras, a company with partial U.S. ownership, was disqualified on the basis that it did not adequately demonstrate its ties to an operating telecom company (Digitel of Venezuela). Digicel officials will soon present clarifying documentation and ask Conatel to reverse the disqualification. Econoffs have discussed the issue with Conatel officials and worked with Digicel reps to understand the key reasons for disqualification and possible routes for remedy. At this point, the company has not asked for any specific USG advocacy. End Summary.

2. (SBU) Of the six companies who submitted paperwork to pre-qualify for the upcoming 25-year wireless telephone services concession, three were found eligible by the Honduran telecom regulator, CONATEL, on November 7. These three firms were: the U.S.'s Bellsouth, Chilean company Empresa Nacional de Telecomunicaciones (ENTEL), and a Swiss-Honduran consortium Megatel-Emce. Among the three disqualified bidders was the other company with U.S. participation - Digicel Honduras - and two firms related to the Mexican utility Telemex. Conatel is giving the disqualified companies time to file a rebuttal to the disqualification. The issuance of the tender package is now delayed until approximately January of 2003 and the opening of the bids estimated for sometime in March 2003. Digicel representatives visited the Embassy on November 14 to explain their concern about the company's disqualification. Bellsouth has not been in contact with the Embassy to date.

3. (SBU) CONATEL provided a long list of legal, technical and financial deficiencies in Digicel's prequalification package. Some are spurious and easily clarified. However, the key requirement for prequalification was a demonstration that the bidder was a significant participant (20 percent or more) in an operating wireless telecom company. Digicel Honduras is claiming that its shareholders' participation in the Venezuelan telephone company Digitel de Venezuela satisfies this requirement. However, the complexity of the consortium's financial structure apparently raised serious questions in Conatel that the requirement was satisfactorily met.

4. (SBU) Digicel Honduras consists of Digicel Holdings Ltd. (61 percent), Venezuelan Ventures (35 percent) and other unspecified shareholders (4 percent). Venezuelan Ventures is itself a consortium of four firms that together represent 21 percent of the shares of Digitel de Venezuela (slightly higher than the required 20 percent): GSM Venezuela (2.78 percent), Venconsul (16.04 percent), Norconsult Telematics Americas (1.0 percent) and Citibank through its subsidiary Latin Investment (1.88 percent). Conatel raised questions about the following issues:

-- Conatel did not credit Latin Investment's 1.88 percent of Digitel as counting in the calculation of the amount controlled by Venezuelan Ventures because the bid documents did not adequately identify the firm as a Citibank subsidiary. This left Venezuelan Ventures slightly short of the required 20 percent holdings in Digitel. Digicel plans to provide further documentation showing the financial ties between Latin Investment and Citibank, and hopes that will resolve the problem.

-- Digicel Honduras provided financial statements for (the non-qualifying) Venezuelan Ventures rather than for the individual consortium members in Venezuelan Ventures. This deficiency will also be eliminated as a problem, if Conatel accepts Latin Investment's ownership by Citibank and thus Venezuelan Venture's status as a significant participant in Digitel de Venezuela.

-- Digicel's regional representative Marnie Martin signed the bid documents as regional representative of Digicel Holdings. The prequalification package, according to Conatel, was missing a sworn declaration indicating that Ms.

Martin is the legal representative of Digitel de Venezuela. The package also omitted the legal domicile and exact address of the financial associate, technical associate and the company through which the technical credentials were presented. Conatel indicates that these legal requirements are considered disqualifying; documents cannot be substituted or added to clarify or qualify this missing information.

15. (SBU) At this point, Digicel has not requested Embassy assistance on their disqualification. An earlier advocacy request by Digicel -- for assistance in convincing the GOH to change the terms of the concession to allow for more than one wireless contract - has been overtaken by their disqualification for the moment.

16. (SBU) Comment. Requirement that the bidders in a concession have a track record of operating a similar company elsewhere is a common way of determining bona fides of companies prior to the opening of the concession process (a similar requirement was included in the concession of Honduras' international airports in 2000). Digicel's relatively complex financial structure appears to have made this determination more difficult than is the case for other companies. Conatel fanned the fires a bit by adding to its legitimate concerns a series of spurious documentation problems (like the alleged omission of a table of contents). However, Embassy believes Digicel executives now understand the key challenges ahead to getting the disqualification dismissed. End Comment.

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